

## Press Releases

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### OTS 06-051 - Stable Thrift Industry Performance Continues in Third Quarter

#### Office of Thrift Supervision

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For further information

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Contact: Katie Fitzgerald

OTS 06-051

202/906-6677

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### Stable Thrift Industry Performance Continues in Third Quarter

WASHINGTON, DC -- The Office of Thrift Supervision (OTS) reported today that the nation's thrift industry posted strong numbers for earnings and solid profitability in the third quarter of 2006. OTS noted that earnings and profitability were strong by historical standards, although profitability was off from recent highs. The agency also observed that industry numbers reflected some stress from an interest rate environment characterized by a flat to inverted yield curve. Industry highlights include:

- Net income was \$4.29 billion in the third quarter, up two percent from \$4.21 billion in the prior quarter and up six percent from \$4.04 billion in the year ago third quarter. Net income for the third quarter was the second highest on record, just below the record \$4.32 billion posted in the fourth quarter of 2005.
- Profitability, as measured by return on average assets (ROA), was 1.08 percent, down from 1.11 percent in the second quarter and 1.15 percent in the comparable year ago quarter.
- The industry's aggregate net interest margin declined five percent to 2.65 percent of average assets from 2.80 percent in the prior quarter. Net interest margin was 2.76 percent one year ago. The decline is attributable to the continued flat to inverted yield curve. (Due to a regulatory change, 2006 net interest margin is not directly comparable to prior years. Prepayment fees and other loan fees are included with interest income rather than in "Other Fees and Charges" beginning with first quarter 2006 regulatory reports. This change was made to match regulatory reporting for commercial banks.)
- Lower net interest margin and fee income and higher loan loss provisions drove the third quarter ROA decline. Partially offsetting the impact on profitability were higher noninterest income (primarily from mortgage banking activity gains) and lower overhead expenses.

Industry capital remained very strong and well in excess of minimum regulatory standards during the quarter. The OTS said that over 99% of the industry met or exceeded "well capitalized" regulatory standards at the end of the third quarter.

- One thrift (holding assets of less than \$50 million) was "undercapitalized" at the end of the third quarter. Pursuant to the collaborative efforts of OTS supervisory staff and the

institution's management, the institution was purchased and recapitalized in a transaction that closed on October 19, 2006.

The OTS noted that thrift industry asset growth remained strong and the industry's share of mortgage originations increased from 21 percent in the prior quarter to 24 percent this quarter for all 1-4 family mortgages made in the U.S. Of particular note:

- Loan and retail deposit growth were strong in the third quarter and contributed to solid asset growth. Assets increased 6.5 percent (26 percent annualized) to \$1.63 trillion from \$1.53 trillion in the second quarter.
- Total 1-4 family mortgage loan originations and purchases were \$254 billion, up 9 percent from the prior quarter but down 8 percent from one year ago.
- Total mortgage originations (including multifamily and nonresidential mortgages) were \$172.1 billion this quarter, up slightly from \$171.1 billion in the second quarter but down from \$204.2 billion in the third quarter one year ago. Third quarter 1-4 family mortgage originations by thrifts were \$149.9 billion, up one percent from \$148.5 billion in the second quarter but down 17 percent from \$181.3 billion in the third quarter one year ago.
- Approximately 26 percent of thrift originations this quarter were ARMs, down from 37 percent in the second quarter and 43 percent the third quarter a year ago. The ARM share for all lenders was estimated at 18 percent this quarter, 25 percent in the second quarter and 28 percent the third quarter a year ago, according to data from the Federal Housing Finance Board's monthly *Mortgage Interest Rate Survey*.
- The volume of mortgage refinancing was lower this quarter than the prior quarter and the third quarter one year ago. Refinancing activity accounted for 27 percent of thrift originations in the third quarter, down from 31 percent in the second quarter and 33 percent in the third quarter one year ago.

OTS indicated overall asset quality remains sound, but there are emerging signs of weakening credit quality in certain loan portfolios and geographic areas. The OTS is closely watching construction loans made in previously "hot" markets, and residential mortgage loans made to investors. The agency is also closely monitoring recently originated or "unseasoned" loans made to first-time homebuyers.

- Total noncurrent loans increased to 0.56 percent of assets from 0.55 percent in the prior quarter, but down from 0.57 percent one year ago.
- Troubled assets (noncurrent loans plus repossessed assets) increased to 0.64 percent from 0.62 percent the prior quarter and the same quarter one year ago.

The OTS indicated that at the end of the third quarter:

- Of the 853 thrifts regulated by the OTS, there were five problem thrifts--those with composite examination ratings of 4 or 5--down by one from the prior quarter. There were 52 institutions that were 3-rated, up three from the prior and year ago quarters. All but one of the 3-rated thrifts was well capitalized.
- 481 U.S.-domiciled holding company enterprises, with consolidated assets of approximately \$7.7 trillion, were supervised by the OTS.

Complete industry results for the second quarter of 2006 are available on the OTS website at [www.ots.treas.gov](http://www.ots.treas.gov).

Thrift Industry Highlights - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-51a.pdf>

Thrift Industry Charts - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-51b.pdf>

Thrift Industry Selected Indicators - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2006-51c.pdf>

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The Office of Thrift Supervision, an office of the Department of the Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of, and compliance with consumer protection laws by, thrift institutions, and to support their role as home mortgage lenders and providers of other community credit and financial services. OTS also oversees the activities and operations of thrift holding companies that own or control thrift institutions. Copies of OTS news releases and other documents are available at the OTS web page at [www.ots.treas.gov](http://www.ots.treas.gov).